A MODERN FINANCIAL UTOPIA: HOW IT GREW UP, AND WHAT BECAME OF IT.

THERE is one great, plain, practical fact in respect to irredeemable paper money, which in itself is a sufficient answer to all the arguments that may be advanced in its favor. And that is, that there cannot be one single instance referred to in the history of any state, nation, or people, in which its adoption and use has not been wholly disastrous. The more conspicuous examples and illustrations which prove this assertion — namely, the John Law scheme of 1716–1720, the currency of the American colonies before the revolution, the Continental money, the French *assignats;* and later and in this century, the paper money experience of Austria, Russia, Italy, Spain, Turkey, and the South American states — are all more or less familiar ; but there is another example, little known, and rarely if ever referred to, which, occurring within a comparatively recent period, and under conditions analogous to those which in the opinion of many render the United States an exception to all the rest of the world, is no less interesting and instructive. We refer to the fiscal experience of the Republic of Texas, which, during the brief period of its existence as an independent nation, committed on a small scale nearly all the financial blunders, and tried nearly all the financial experiments, which the greater nations of Europe have before and since committed and tried on a large scale, and, as might naturally have been expected, with an almost exact parallelism of results. The details of this curious history were first collected by the late William M. Gouge of Philadelphia, — an American writer on finance whose reputation was never commensurate with his worth and abilities, — who visited Texas after its annexation for the purpose of specially studying up this subject; and whose work, published near a quarter of a century ago, and now a rare volume, constitutes the source from which has been derived the following information.

Previous to the year 1835, Texas was one of the states of the Republic of Mexico; and its currency consisted of gold and silver, and, to a very limited extent, of the notes of the banks of the United States. As the civilized population was small, no large amount of currency of any kind was required, but as compared with other newly settled countries, money was reported "to have been plenty." A great part of the Texan currency consisted of what were termed "hammered dollars," or old Spanish dollars from which the royal effigy had been effaced by the Mexicans as a testimony of disrespect for their former rulers. Time contracts were however made in new Mexican dollars, which were termed "eagle money," and circulated at one hundred cents to the dollar; while the "hammered dollar," though containing fully as much pure silver, circulated at only ninety cents; the probable reason for the current depreciation of the latter being, that the destruction of their certificate of value effected by defacing the stamp, also prevented their use in settling foreign exchanges, and consequently their exportation.

After the commencement of the revolution, and the inauguration of a provisional government, in November, 1835, hammered money gradually disappeared from circulation, and bank-notes from the States came in more freely and constituted the chief currency. In 1837, however, the banks of the United States suspended specie payments, and while all of the circulating medium of Texas became greatly depreciated, a very considerable portion derived from the banks of the State of Mississippi became altogether worthless. "Thereby," says the

historian above referred to, "many of the people of Texas suffered severely, but their aggregate losses did not equal their aggregate gains, as many of these notes had been obtained in loans and many of these loans were not repaid."

From the very first the Texans do not appear to have ever allowed themselves to be embarrassed by the idea of Old-World bankers, political economists, and doctrinaires that the circulating medium of a country should be based upon the precious metals. They were wiser than all that; and they had in their possession something more valuable than gold and silver, — the element and source of all wealth, — namely, an almost unlimited quantity of cheap, fertile land. This was the true thing, in their opinion, to bank on, and bank on it they did. The first bank chartered, nearly six months before the commencement of hostilities, was the "Commercial and Agricultural Bank" of the department of Brazos. Its capital was not to exceed one million of dollars, divided into shares of one hundred dollars each. It was authorized to establish branches anywhere and everywhere; receive eight per cent. per annum on loans not exceeding six months, and ten per cent. on loans exceeding that time; and only the capital of the bank was to be responsible for the notes it issued. But the subscribers were required "*to adequately secure the value of their shares with real estate in the republic.*" In short it was a most liberal charter, and the only thing any way illiberal about it was the single clause, "that as soon as one hundred thousand dollars, at least, have entered the vaults of the bank, it may commence operations." "Dollars," however, at that time, in Texas, says our historian, "*meant just whatever the people meant to make it mean.*" William M. Strong, of Pennsylvania, Associate Justice of the Supreme Court of the United States, had not then taken his seat on the bench; but the Texans in 1835 knew as well as Judge Strong did, when he gave the legal tender decision in 1871, that "*value was an ideal thing;*" [1] that "*it is hardly correct to speak of a standard of value;*" [1] that "*the gold and silver thing we call a dollar is, in no sense, a standard of a dollar;*" [1] in fact, that anything is a dollar which the law-making powers may imagine it to be, and that it is not at all necessary that their "imagining" for one year should be the same as their "imagining" for some other and subsequent year. And as the Bank of Agriculture and Commerce appears to have commenced operations, and as there is no evidence that the one hundred thousand dollars was ever paid in, we are warranted in supposing that the "ideal" took in every respect the place of the real. That the Congress of Texas had also faith to a large extent in the *ideal* standard of value is made evident by the fact that, by an act passed in December, 1836, the secretary of the treasury was authorized and empowered "to negotiate a loan from any bank or banks that may be established in this republic, of sufficient amount for the payment of all just claims" held by certain creditors against the government; and lest the Bank of Agriculture and Commerce, with its capital of one million of "ideal" dollars, and the value of its shares made good by the pledge of real estate, should not be able to afford sufficient banking facilities to a population not exceeding fifty thousand, including the "State," the "Texas Railroad and Navigation Banking Company" was in 1836 incorporated in addition. The capital of this company was fixed at five millions, to be increased if desired to ten millions, with the right of connecting the waters of the Rio Grande and the Sabine by means of internal navigation, and the privilege of making branch canals and branch roads in every direction; and this too at a time when the Republic of Texas had not the means of supporting a navy sufficient to protect its coasts from the attacks of one small sloop of war belonging to the Mexicans. The five millions of stock were immediately subscribed by eight

[1] *Decisions Supreme Court of the United States*, 1871.

individuals and firms; but the operations of the banking company were exceedingly limited, and are thus reported: None of the subscribers paid in anything. One sold his interest, however, to a firm in New York, and took his pay in store-goods. A second sold his for ten thousand dollars; while a third swapped his for three leagues of land, which he subsequently sold at ten dollars and a half an acre. "The rest of the subscribers retain their original stock to this day." Other projects of a like character were brought forward; namely: "A Joint Stock Company for the erection of a Hotel and Bath House at Velasco, with Banking Privileges;" "The Texas Internal Improvement and Banking Company;" "The Red River and Aransaso Bay, Navigation, Railroad, and Banking Company;" and finally, for establishing a bank on the faith of the government. All these projects were favorably received; but before the necessary laws could be passed, to put them in operation, news was received of the general failure of the banks of the United States (1837), and the republic was deprived of its prospective capital, enterprise, and consequent development. To supply the necessities of a circulating medium occasioned by the discredit of bank-notes issued in the United States, individuals and municipalities commenced in 1837 to issue "shinplasters," or notes for the fractional parts of a dollar, and continued to do so until 1840, when an end was put to them by the bankruptcy of the issuers.

It is now desirable to turn back and consider more directly the means by which Texas provided funds to carry on the war. At the outset the new republic had, apart from the pledge or sale of its lands, but few financial resources. A financial report made to the provisional government or council in November, 1835, brought out the fact, that although an army was in the field, engaged in active operations, yet "our finances, arising from the receipt of dues for lands, as will appear on file in Mr. Gail Borden's report, which were in his hands, are fifty-eight dollars and thirty cents. This money has been exhausted, and also an advance by the president of the council of thirty-six dollars. There were also several hundred dollars in the hands of the alcalde of Austin. Upon this money several advances have been made; as such you may consider that at the present moment the council is out of funds."

But it will never do to despise the day of small things. The men who had undertaken to make of Texas a free and independent republic were, in respect to audacity, enterprise, and self-reliance, typical emigrants from the great American nation, and having put their hands to the plow had no intention of stopping half-way in the furrow. But to succeed in their undertaking "ways and means" were indispensable; "and finding," says Mr. Gouge, "that other nations in their periods of exigency had resorted to taxing, borrowing, begging, selling, robbing, and cheating, they determined to try all six," and he might have added, they in all six succeeded. The first feasible and ready way of collecting a revenue through taxation, that suggested itself, was by duties on imports, and the Texan legislators accordingly took to the tariff after the most approved American fashion; enacting a given rate of duties on the 12th of December, revising the same on the 15th, and making a new tariff on the 27th. In the ten years that Texas existed as an independent republic, it had no less than seven distinct tariffs.

Export duties on cotton were also recommended. The chief reliance of the government was, however, upon loans, and commissioners were early appointed to borrow one million of dollars at a rate not exceeding ten per cent., on bonds running for not less than five or more than ten years; the commissioners being authorized to pledge the public faith, the public lands, the public revenues, and in short everything that Texas possessed in the way of security, for their repayment.

The idea that "a national debt was a national blessing" was one for which it has been generally supposed an agent

of Jay Cooke & Co., employed to write up the 5-20 bonds, in 1863, was entitled to a patent for originality; but the records of the Congress of Texas show that the unexpatriated Yankee was after all but a poor though probably unconscious imitator, and that his conceptions of the felicity of owing somebody nationally never began to rise to the height of those indulged in by a Mr. Chenoweth, who, as chairman of the national committee on finance, submitted to the first Congress on the 16th of December, 1835, a report, of which the following is an extract: —

"At present our indebtedness is small, and our liabilities almost entirely to private individuals, whose claims, your committee are of opinion, may properly be merged and canceled by the creation of substantial loans. An outstanding national debt may in many respects be looked upon as beneficial, by a community isolated and dependent as Texas, if the creditors, as such, can afford us substantial patronage. And until we can stand immutable among the nations of the earth, your committee would advise *that the pecuniary interests of our creditors will excite for us the sympathy and protection of mankind.*"

In one sense Mr. Chenoweth's "advice" proved correct, though not altogether in the manner he anticipated; for the various debt certificates of Texas being largely disposed of in the United States, an earnest sympathy for the republic was thereby naturally created among the holders; and this sympathy ultimately was most powerful in securing the annexation of Texas to the United States, and subsequently an appropriation from Congress of the sum of $10,000,000, with the understanding that the same should be used in the payment of the debts of the republic.

Under the head of "selling," as an expedient for providing ways and means, the public lands were offered by the government of Texas at low prices and in any quantity; but as the cash value of the article was small, — the price fixed by the Mexican government before the war being less than four cents per acre, — and as, furthermore, until after independence was fully established it was a question whether the vendor could pass an adequate and sufficient title, the receipts from this source were inconsiderable.

Under the head of "begging," the foreign agents of the republic were authorized to receive money or donations of any kind that might be given by citizens of any country they might visit; and that the hat thus passed round did not return empty is evident from the circumstance that on the 30th of November, 1835, formal resolutions of thanks were passed by the council to John Hutchins of Natchez, Mississippi, for his liberal donation of one hundred dollars "for the use of Texas in her struggle for liberty."

Under the head of "robbing," the council, on the 17th of January, 1836, enacted, that whereas it was impossible for the troops at Bexar "to drive beeves and procure provisions for their use without horses; *Therefore be it resolved*, that the commandant be authorized to employ as many Mexicans, or other citizens, for the purpose of driving up beeves, and procuring provisions, as may be required for that purpose." Letters of marque and reprisal were also early authorized and issued: but in this department of robbery the Texans could plead the precedents of the best-established and most Christian governments.

Under the head of "cheating," Mr. Gouge groups the several acts and proceedings of the republic in respect to the manufacture and issue of paper money. The national treasury was first established, so far as the election of a treasurer could establish it, in November, 1835. Previous to this there had been a fiscal committee, and this had made a report, which, as the first official financial document of a *de facto* government, destined in the course of the following year to come into possession and control of a territory larger than France, deserves to be handed down to posterity. The report related to a matter of extortion and swindling on the

part of certain contractors, and alleged, that one Thomas Bray, for furnishing "Cole's company of wagoners with one hundred and seven pounds of bread, had charged twenty-five cents per pound, or twenty-six dollars and seventy-five cents, whereas he should have charged but fourteen cents per pound; and that one Madison M. Stevens had charged an extortionate sum for "carrying one express to Nacogdoches." It was accordingly recommended that Bray be allowed but fifteen dollars and seventy-eight cents, and Stevens but ten dollars and fifty cents in full of all accounts, and the report was ordered to lie on the table. A month afterwards, by some skill of manipulation not unworthy in these later days of a Chorpenning and his counsel, Hon. John Cessna, the committee made another report, in which it was recommended that Messrs. Bray and Stevens be paid in full, — and paid in full they probably were. How good a field there would have been for Chorpenning and Cessna to have operated in is illustrated by the following extract from a message which the first governor, Henry Smith, about this same time sent in to the "*Honorable President and Members of the General Council.*" He says: —

"Instead of acting as becomes the counselors and guardians of a free people, you resolve yourselves into low, intriguing, caucusing parties; pass resolutions without a quorum, predicated on false premises; and if you could only deceive me enough, you would join with it a piratical coöperation. You have acted in bad faith, and seem determined by your acts to destroy the very constitution you are pledged and sworn to support. I have been placed on the political watch-tower, and I hope I will be able to prove a faithful sentinel. You have also been posted as sentinels; but you have permitted the enemy to cross the lines, and you are ready to sacrifice your country at the shrine of plunder. Mr. President, I speak collectively, as you all form one whole, though at the same time I do not mean all. I know you have honest men there; but you have Judas in the camp, — men who, if possible, would deceive their God.

"Notwithstanding their deep-laid plans and intrigues, I have not been asleep. They will find themselves circumvented in every tack. I am now tired of watching scoundrels abroad and scoundrels at home, and as such I am now prepared to drop the curtain.

"Look around upon your flock; your discernment will easily detect the scoundrels; the complaint, contraction of the eyes; the gape of the mouth; the vacant stare; the hung head; the restless, fidgety disposition; the sneaking, sycophantic look; a natural meanness of countenance; an unguarded shrug of the shoulders; a sympathetic tickling and contraction of the muscles of the neck, anticipating a rope; a restless uneasiness to adjourn, dreading to face the storm themselves have raised. Let the honest and indignant part of your council drive the wolves out of the fold. Some of them have been thrown out of folds equally sacred, and should be denied the society of civilized men.

"But, thanks be to my God, there is balm in Texas, and a physician near."

And the governor then, in the capacity of a physician, proceeded to administer the balm by ordering the council to be forthwith prorogued, "unless your body will make the necessary acknowledgment of your error, and forthwith" (before twelve o'clock to-morrow) "proceed" (by issuing a circular and furnishing expresses), "to give it circulation and publicity, in a manner calculated to counteract its baleful effects."

But the council would n't be prorogued, and refused to accept the balm. They referred the governor's message to a committee, who forthwith reported, "That they are unable to express any other views than indignation at language so repulsive to every moral feeling of an honorable man, and astonishment that this community should have been so miserably deceived in selecting, for the high office of governor, a man whose language and conduct proves his early habits of association to have been vulgar and depraved." The report con-

cluded with resolutions that they would sustain the dignity of the government, and that Henry Smith be ordered forthwith to cease the functions of his office. The next day they issued an address to the people, in which they repelled the charges brought against them in "that impudential document," and brought counter-charges against his excellency himself. A single paragraph is given by Mr. Gouge to show the character of this address: "All these acts of stubbornness and perverseness were not sufficient to gratify his thirst for sole dominion. His dignity was insulted at the idea of the existence of the coördinate branch of government to curb his acts and check his usurpation. He became more and more restless, until, enraged at the presumption of the council, in the exercise of a constitutional right, he ignites; his fury, in a blaze, consumes his prudence (what he had); he orders the council to disperse, shuts the door of communication between the two departments, and proclaims himself the government."

At this rejoinder and counter-attack Governor Smith seems to have been considerably astonished; and sought to reconcile matters with the council by sending the next day a message, in which, after confessing that he had used "much asperity of language," he concludes as follows: —

"Believing the rules of Christian charity require us to bear and forbear, and as far as possible overlook the errors and foibles of each other, in this case I may not have exercised towards your body that degree of forbearance which was probably your due. If so, I have been laboring under error, and as such, hope you will have the magnanimity to extend it to me, and the two branches again harmonize to the promotion of the true interests of the country." But it was of no use; Governor Smith's "Christian charity" was exercised too late. The council deposed him so far as they could, and for the remainder of the session, Lieutenant-Governor Robinson "reigned in his stead."

The formal establishment of a national treasury was one thing; the filling it with money was quite another and different thing. And as sufficient funds for defraying the expenses of the government and the army did not come from any of the expedients of taxation, loans, the establishment of companies with banking privileges, the sale of lands, begging, or seizing private property by land and sea, the republic next undertook to pay its way by drawing drafts on itself. To give these drafts credit and circulation an act was passed, December, 1836, "That it shall be the duty of the several collectors (of customs) to receive the orders of the auditor upon the treasury of the republic when offered by importers in payment of duties at the time of importation;" and in June following, it was enacted, "That properly audited drafts on the treasury of the republic shall be received in payment of taxes imposed, except on billiard tables, retailers of liquors, and nine-pin alleys, or games of that kind." By these two acts, Texas gave her audited drafts a greater value than they would otherwise have possessed, and caused them to pass into hands that otherwise would not have received them. From first to last, the issue of these audited drafts amounted to about eight millions of dollars ($7,834,207). They do not appear to have ever to any extent answered the purpose of currency; and the circumstance that they were issued for odd numbers of dollars and cents, and when passed from hand to hand required a calculation, doubtless contributed to prevent such a result. They gradually depreciated in value, and in December, 1837, one year after the passage of the act authorizing their reception for custom dues, another act was passed declaring that the state would no longer receive such drafts in payment of debts due to itself.

The greatest and best stroke of financial policy on the part of the new republic was, however, reserved to the last; and in November, 1837, when borrowing, begging, selling land scrip, and issuing audited drafts had been

exhausted as expedients for raising money, the government commenced the issue of treasury notes. These notes were in the form of bank-notes, and by law were required to be printed "*in neat form.*" They were also for round or even sums, and mainly for small amounts, and specified on their face "*that they will be received in payment for lands and other public dues, or be redeemed with any moneys in the treasury not otherwise appropriated.*"

And here commences by far the most valuable of all the lessons deducible from the study of the fiscal experience of the Republic of Texas, — a lesson, moreover, exceptionally interesting, from the circumstance that we find in it a showing and demonstration that the working and effect of a system of irredeemable paper money is one and the same, whether the field of its influence be a rich, densely populated old country like Austria or Great Britain, or a disturbed, thinly populated community, with little accumulated capital, and occupying, as it were, the very border line between barbarism and civilization.

The first noticeable and most interesting fact connected with the history of these Texan treasury notes is, that although the credit of Texas at the time of their issue was so bad that a foreign loan could not be negotiated, and the audited drafts on the treasury had so far depreciated as to have but a nominal value, and that of less than *fifteen* cents on the dollar, yet the notes themselves, though practically unredeemable, were when first issued at par, or nearly par, with specie, and furthermore were kept so for months, or until their issue exceeded in amount half a million of dollars. The explanation of this curious phenomenon is, that the people of Texas, at the time of the authorization of these treasury notes, had practically no circulating medium for effecting exchanges, or none that was really worthy of the name; and although a community can get along in its business without a currency, as it can without horses and carts, ships and steam-engines, — all alike instrumentalities for effecting the interchange of commodities, — there is no community that will dispense with any of these agencies if it can help it. With the outbreak of the revolution the hammered money and the eagle money, as already stated, soon disappeared. With the failure of the banks of the United States in 1837, the notes of the banking institutions of the southwestern States, which had come in like a flood and had supplied to Texas the void occasioned by the disappearance of its specie circulation, became worthless; while the issue of shin-plasters or fractional notes of persons and firms, although continued, was by law forbidden. The want of some medium that should have *one* value, and would regulate prices and facilitate exchanges, was therefore much felt; and when the government gave the people the best medium they could, threw around it all the guarantees that it was in their power to supply, and issued no more of the "medium" than was necessary to meet a specific want, the people in turn accorded to the medium a value proportional to the work it performed, or the necessity it supplied. The first issue of notes, in addition to a pledge of government faith to receive them in payment of all public dues and to redeem them as soon as there was anything to redeem them with, carried also a promise of *ten* per cent. interest; a rate easily calculated, and which offered an inducement for hoarding the notes, to such Texans as could afford it and had also faith in their ultimate payment. The whole revenue from customs was also devoted to sustaining the credit of these treasury notes, and about this time the laws for raising a revenue from imports began to be effective; the gross revenue accruing from the customs for the quarter ending September 30, 1837, having been about sixty thousand dollars.

The Texans were, moreover, exceedingly wise in their day and generation in another matter. The original treasury notes, although intended to serve as currency, were nevertheless, from the fact that they carried ten per cent. in-

terest, in reality a species of national "bond;" and being issued in round sums of small amounts, as low even as one dollar, they were taken up as investments, or speculated in by persons of very small means, who never regarded themselves in any sense as capitalists. Very considerable sums thus found their way into the United States and were permanently held there, and even the negroes of New Orleans were enabled to enjoy the luxury of speculating in foreign securities. It is also curious to recall that at the time of the formation of the syndicate in 1870–1871, for the purpose of funding the national debt of the United States at a lower rate of interest than six per cent., this very same plan that worked so successfully in Texas in 1837 was brought forward and urged before the committees of Congress with great ingenuity and ability, by the then head of the European banking firm of Bowles Brothers, as a condition precedent and essential to placing permanently a large amount of Federal securities among the masses in Europe, at a very low rate of interest. According to Mr. Gouge, Texas treasury notes continued to be at par, or nearly at par, with specie, until their amount exceeded half a million of dollars. If we take the population of Texas at that time as about *forty* thousand, and suppose that one fifth of the entire issue of half a million was hoarded, or floated off into the United States, then the result affords a very striking and curious confirmation of the theory held by many of the best informed bankers and economists, that an average of about *ten dollars per capita* is the utmost limit of paper money that a community can permanently float, and at the same time keep on a level or par with specie.[1] It is also a fact in regard to the Continental money, that, so long as its issue was not in excess of thirty millions, or at the rate of about ten dollars *per capita*, or up to January, 1778, its maximum depreciation was not in excess of five per cent., as compared with specie.

But all history shows that when a nation has once embarked in a scheme of irredeemable paper money, it is extremely difficult, if not wholly impossible, to resist the current and drift of its influence; and the experience of Texas constitutes no exception to this general rule. The five hundred thousand paper treasury dollars had done good service; they had doubtless been printed in a "neat form" as the law provided; had proved attractive to the masses, and had relieved the most urgent financial necessities of the republic. Why should not the people of Texas have more of so good a thing? They accordingly, through their legislative agents and representatives, determined to have more; and in the spring of 1838, a bill, bearing the familiar title of "*An Act to define and limit the issue of promissory notes*," was reported in the House of Representatives, which authorized an additional issue of one hundred and fifty thousand dollars. The Senate, however, increased the existing amount to one million, and as thus amended, the bill passed both houses by large majorities. Sturdy and honest Sam Houston was then President, and when the bill came up for his signature, he promptly vetoed it, and gave his reasons therefor in a message, so full of common-sense and sound principles that there is nothing which the people of the United States could to-day read with greater profit and instruction. Indeed, it would almost seem as if he had before him, at the time of writing, the present condition of the United States, rather than that of his own people. He says, "When the (treasury note) currency was projected, both the government and the country were without resources. National existence and freedom had been achieved, but the struggle had left us destitute and naked. There were no banks! There was no money! Our

[1] The theory is that if the notes are redeemable in specie on demand, and more than ten dollars *per capita* is issued, the excess will be presented for redemption and be thus voluntarily retired. If the notes are not redeemable on presentation, the moment the line of excess is passed, that same moment indicates the commencement of permanent depreciation.

lands could not be sold, and the public credit was of doubtful character! To avoid the absolute dissolution of the government, it became necessary to resort to some expedient that might furnish temporary relief. This could only be effected by creating a currency that should command some degree of credit abroad.

"It was hoped and believed, that if *a small issue of government paper* was made, with specific means of redemption pointed out, which appeared to be ample and well guaranteed, and the government should evince a prudent and discreet judgment in its management, it would command such articles in the market of the United States as were indispensable to the country.

"The result has justified the expectation."

But he continues, and his words are as full of truth now as then, "*The government will never be able by all the issues it can make, to satisfy the demands of private speculation and interest.* The vast issues of all the banks in the United States (reference being here made to the condition of things in 1836–1837), in their most extended condition, failed to attain this object. There has not probably been in circulation at any time, more than half a million of dollars. The present bill requires the secretary of the treasury to increase the issue to a million. No time or discretion is allowed to that officer. The circulation of the country is to be doubled in as little time as is required to issue the paper."

The objections of the executive for the moment prevailed; but another bill was passed a week after, which allowed the president to increase the amount of treasury notes to one million, if in his judgment the interests of the country required it; and at the same time, it specifically appropriated four hundred and fifty thousand of such notes, or an amount nearly equal to the whole existing issue, to the payment of army, navy, and civil indebtedness. The barriers against unlimited inflation were thus indirectly removed, and from this time there does not appear to have been any effort to restrain further action in this direction. The first issues of these notes, as already stated, carried interest. The new issues were without interest, and on account of a red impression on their back, were everywhere known as "red-backs;" thus affording another example in illustration of the trite proverb, that "history repeats itself."

As might have been expected, with the authorization of the new issues the notes began to depreciate; and the depreciation increased with each additional emission. In all, paper money in the form of treasury notes to the nominal amount of $4,717,939 was issued. In January, 1839, these notes were worth no more than *forty cents on the dollar;* in the spring of 1839 they were worth thirty-seven and a half cents; in 1841, from twelve to fifteen cents; and in 1842 they fell to ten cents, to five cents, to four, to three, to two, and finally became utterly worthless. In the characteristic language of the times, it required, before the close of President Lamar's administration, "fifteen dollars in treasury notes to buy three glasses of brandy and water, *without sugar.*" To the treasury notes succeeded what were termed "exchequer bills;" but they were comparatively few in number, and never passed to any extent into circulation. "By this time," says Mr. Gouge, "there was little circulating medium of any kind in Texas; but this was no great calamity, as the people had but little left to circulate. The evils this system did were immense, and such as for which, even were it so disposed, the government could afford no compensation to the sufferers. They no doubt, however, like others in similar circumstances, attributed to the want of circulating *medium* the evils they suffered from want of circulating *capital.*" In all, from first to last, the amount of "promissory notes," "audited drafts," "exchequer bills," bonds, etc., issued by the Texan treasury, and serving to a greater or less extent as "circulating medium," amounted to $13,318,145; or reckoning the population at fifty thousand, more than two hundred and sixty-

six dollars per capita. If paper issues could, therefore, have made a people rich, the Texans ought to have been the richest people in the universe.

One other thing in connection with this subject ought specially to be mentioned in all honor to the Texans. In the midst of their poverty, and crushed almost to the earth with their burden of financial necessities, they never made their government paper a legal tender in the payment of private debts; but every man was left at liberty to refuse or receive treasury notes at his option. The result was, that when "red-backs" were almost the exclusive circulating medium, specie was the standard of ultimate reference. If a man bought an article on credit, he gave a note promising to pay dollars in silver, or so many treasury notes, as should, when the note fell due, be worth an equivalent of the amount owed in silver.

But another and no less curious part of this history yet remains to be told. The experiment of paper issues, not redeemable in specie on demand, to supply the office and function of money, or circulating medium, had been fully and fairly tried in Texas, and the people, one and all, were so entirely satisfied with their experiences, that they wanted no more for all time, like it. They accordingly did not content themselves with mere ordinary legislation; but when the convention came together, immediately after the consummation of the act of annexation to the United States, to form a State constitution, the delegates, by one of their earliest acts, inserted in the constitution the following sections, which were afterwards ratified by the people:[1]

"*In no case shall the legislature have power to issue 'treasury warrants,' 'treasury notes,' or paper of any description intended to circulate as money.*"

"No corporate body shall hereafter be created, renewed, or extended, with banking or discounting privileges."

"The legislature shall prohibit by law individuals from issuing bills, checks, or promissory notes, or other paper, to circulate as money."

"It is never," says Mr. Gouge, in noticing the peculiarities of this constitution of Texas, "without deep experience of the evils of paper issues that the people impose such restrictions on their rulers."

And the first legislature that convened after the adoption of the constitution, or in the succeeding year, made the following further enactment: —

"No person or persons within this State shall issue any bill, promissory note, check, or other paper, to circulate as money."

"Every person who may violate this act shall be subject to indictment therefor, by a grand jury, as for a misdemeanor, at any time within twelve months after so offending; and shall be subject to a fine of not less than ten dollars, nor more than fifty dollars, for each and every bill, promissory note, check, or other paper, issued by them in violation of the first section of this act."

These measures practically put an end to the paper-money system of Texas. Various subterfuges were afterwards resorted to, and by means of them paper-money, to a very limited extent, found its way into circulation in Texas after its annexation to the United States. But as a rule, the community never again looked with favor upon any other currency than specie. The result of such a policy on the development and business of the State was thus reported by Mr. Gouge in 1852, — seven years after its adoption: "The result of this hard-money policy is, that business in

[1] The movement against the continued use of paper money, in fact, commenced in Texas at a date considerably earlier than that above indicated; the last president of Texas, Anson Jones, in December, 1844, using in his inaugural the following language: "The fallacy and danger of a factitious paper currency having been demonstrated by every civilized nation upon the earth, and Texas having once participated in this demonstration, should now, when she is able to do so, abandon the experiment and resort in time to what the experience of the past has conclusively shown to be the only safe expedient for governments — a hard-money currency as a circulating medium." In accordance with this recommendation, the Congress of Texas, in almost one of its last acts, forbade the further issue by the government of "any description of paper representing money intended for circulation, or to be received in payment of any class of revenue;" and required the secretary to cause to be destroyed all the exchequer bills received at the treasury department.

Texas rests on a more stable foundation than it does in many other parts of the Union. That it is absolutely free from vicissitudes is what we do not assert. But, unbolstered by bank-credits, and governed by that best of all regulators, gold and silver, her merchants limit their purchases of goods abroad by the actual demands of the planters at home, measuring that demand by the surplus crops the planters have to dispose of. Exchanges are regular. The maximum rates never exceed the cost of transporting specie, and often fall below it. A gentleman at Austin told us that he had in the course of years negotiated bills on New York, to the amount of two hundred thousand dollars, and had seldom given either premium or discount. At Galveston, exchanges on New York have not for years been at any time more than one and a half premium."

Prices, Mr. Gouge observes, were not low, but quite as high as they are (other things considered) in the most paper-loving portions of the Union; thus showing that "hard money and high prices are not incompatible."

"The rate of interest is high, because the profits of trade are great. Money is scarce, as money ought to be, for without scarcity it would lose its value. But gold and silver is in Texas quite as plentiful, in proportion to other circulating wealth, as paper money is in New York or Massachusetts."

Mr. Gouge also, in his record, brings out two other series of facts in connection with the history of the paper money of Texas, which from their parallelism with results obtained on a larger scale, but under similar circumstances, in the United States and other countries, are especially worthy of notice. The first relates to the incentive given by paper money to national extravagance and increase of expenditures; and in this respect the experience of Texas was as follows. The revolution broke out in 1835. From that time until the close of 1838, the period covering the main military operations and the practical achievement of independence, the Republic of Texas incurred a debt of less than two millions of dollars. This small amount was not due to the circumstance that the government had any objection to running in debt; "but because few would trust, except such as could not well avoid so doing." In 1838, Mirabeau B. Lamar was elected president, and held office for three years, or until December, 1841. The period of his administration was one of comparative peace, but it was also the era of paper money and profusion. Lamar in his three years' term increased the national debt from less than two millions to upwards of seven millions. The average annual expenses of his government were also $1,618,405.

In 1841 General Houston took office as president for a second term. The paper money bubble had exploded, but Mexican hostilities, which in General Lamar's administration only threatened, now actually broke out. Yet in General Houston's last administration not only was the national debt not increased, except by increments of interest and by the bringing in of back accounts; but the average annual expenses of the republic were reduced from $1,618,405 to $170,361. Mr. Gouge claims that this experience of the republic under President Houston, from 1842 to 1844 inclusive, shows "that if it had been possible for the Texans to be hard-money and prompt-payment men, they might have achieved their independence and defrayed all the expenses of the republic, at a cost of two hundred thousand a year. But the Texans never became economical until constrained by necessity." So long as they could borrow, or induce any one to take their paper money, they were extravagant; but when they could borrow no longer, and their paper money refused to circulate, then they became saving.

The second series of facts relates to the influence which an excess of paper currency in Texas exerted in encouraging imports and discouraging exports. Thus during the administration of Lamar, — 1839–1840, — when treasury notes were the circulating medium, and money was, as it is termed, "abundant," the

imports were nearly six times as great as the exports; or an average of $1,442,733 of imports per annum as compared with an average of $247,459 of exports. On the contrary, in two years of Houston's second term, 1843–1844, when such notes were no longer current, the exports nearly equaled the imports; the average annual import being $578,854 as compared with an average annual export of $506,444.

Whether the memory of the events and experiences thus recorded has been kept alive in Texas, we know not; but one thing is certain, that from the annexation of Texas to the present day, her people have evinced no love for paper money. During the rebellion, Confederate money found little favor in Texas, and circulated only under the pressure of military law and necessity; along the lines of the several railroads, fares and freights have been latterly paid in currency; and since the opening of the Missouri, Kansas, and Texas Railroad, currency has gradually entered to a greater or less extent into the transactions of merchants; but in the interior, cattle and cotton can be purchased only for specie, and with the average Texan, who travels with an ox-team or on mule-back, the greenback obtains no recognition.

David A. Wells.

A VISION.

Within the breast of winter
A spring thought stirs to-day.
The sailless fleet upon the lake
Will all its anchors weigh,
And, white before the gentle wind,
Float down the great blue bay.

Through all the dead trees' branches
The happy secret thrills;
A sudden memory of flowers
The wild wood hollows fills,
Though yet a solemn silence seals
The lips of these white hills.

Again quick life is beating,
With sudden hope and power.
It matters not that joy must die
Within this one bright hour,
Quick fleeting as the glory born
Of meeting sun and shower.

The icy squadron whitens
The water's blue in vain,
And days of wintry storm deny
The promise of the rain:
The heart that once has dreamed of spring
Cannot grow cold again.

Ellen Frances Terry.